Tab 105

Memorandum

To: David Brown
From: Eric Larsen
Date: August 27, 2002
Re: Weekly Report

Sales for August

Sales for the month, as of Monday, are $12.713 million.

Sales to Consumers

Sales to consumers from August 17 to August 24 were down.

- Target sold 10,849 bottles during the week that ended August 17th vs. 9425 for the week that ended August 24th—down 13.13%. Sales on Sunday were off 129 bottles—10.97%--when compared to the previous Sunday.
- Sams—6495 vs. 5467—down 15.83%. Additionally, sales over the last 3 days are down 353 bottles when compared to the same period last week. This represents a decrease of 12.82%.
- Wal-Mart—55,996 vs. 48,860 down 12.74%. However, sales over the last 3 days are up 788 bottles over the same period last week. This accounts for a 3.57% increase in sales. The good news it that we are up that the account where we can do the most good.
- Kmart—4711 vs. 4315 down 8.41%
- Costco—8223 vs. 6625 down 19.43%

Retailer's Attitudes

Our calls with Costco, Walgreens, Target, and Wal-Mart went well and they are not pulling the product off the shelves. They have questions about the FDA and the continuing investigations but are supportive of Metabolife. They want the media about ephedra to go away quickly and for us to keep them updated when news or other information becomes available. They also want to know what our plan is to get our side of the story out to consumers, which Jan Strode has prepared for us. Additionally, the ECRM show has been a success. There is a tremendous interest in the ephedra free product. We have been selling an end of November ship date.

Ephedra Free Strategy

Overall we think it would be best to introduce a clinically proven product into the market when we had planned, shipping late November, so as to keep people calm. Any deviation from the plan we outlined in June, at NACDS, could be seen as paranoia on our part. If we introduce a me-too product early into the market our accounts will most likely believe that we had to do it and not that we wanted to do it. They will most likely react to this by putting us on Buyer hold and pulling the product.

Early introduction to Wal-Mart

Wal-Mart would put the product on feature and take 356 down. I believe they would want to swap the product out and not just purchase additional product. They already have 13 weeks and we are shipping about 170,000 bottles this month. Accounts like Walgreen's, Target, Costco, Kroger, Rite Aid, CVS, Eckerd, Sam's, Albertson's, Safeway and Kmart would be concerned about why Wal-Mart took the 356 down and put the Ephedra Free up. Why so quickly? What is wrong? They will think there is some imminent danger of 356 being pulled and therefore may pull it themselves.

They will then put us on Buyer hold (not pay us) and probably start sending product back. Accounts believe if 356 gets pulled it will bankrupt the company and they want to protect themselves and not get caught holding inventory that we cannot reimburse them for. The other issue is that we don't know how much we could be scaring the consumer by having it changed out so quickly.

Early introduction to Wal-Mart and rationing to other accounts with me-too product

Wal-Mart, Costco, Walgreen's, Sam's, Target and Kmart could react to getting the Ephedra free in but all other accounts could not. This would again be devastating to all other accounts. They would wonder why we were going away from our plan and whether or not they were going to be left holding the 356 inventories. The concerned accounts would put us on hold and probably send product back. Nobody wants to get caught holding product that cannot be returned if the FDA pulls the product. The other issue that will reaffirm that we are panicked is that we are coming out with a me-too product instead of the clinically proven product we talked about at NACDS. Every time someone talks to us about other Ephedra Free products we explain how just adding more stimulants is not effective and that we were taking longer so as to come out with a product that Works.

If we do a me-too and try and swap it out in Jan with the clinically sound product-we will have just killed our Ephedra product as well as any credibility as a company. We show we are panicked and out of control.

Bottom line

Barring some other issue, we need to stay the course and introduce the Ephedra Free product that is clinically proven effective in late November. By doing so we reaffirm what we have already stated. That FDA will do nothing until the Rand report is completed. That our current product is safe and effective when taken as directed.